

Written evidence submitted by Crown Agents Limited (ECA0013)

Introduction to Crown Agents

Crown Agents is a not-for-profit international development company, working in 80 countries and with delivery offices in 19. In existence since 1833, we work with ministries, governments, institutions, donors, foundations, philanthropists and the private sector to tackle the complex challenges they face, whether that's seeking to meet the Sustainable Development Goals (SDGs), improving the quality of life and opportunities for their citizens, or responding to the needs of a global pandemic. Often, we work behind the scenes, addressing the 'nuts and bolts' core matters, supporting governments and other clients to resolve practically challenging and politically difficult issues that hold back faster and greater progress. We estimate that we reached over 120 million people through our programmes in 2022.

We have been working in Central Asia since 2013, when our regional hub office was established in Kyrgyzstan. Our office acts as a hub for consultancy and supply chain services in the region, built on over two decades of experience working in former Soviet Union countries, and implementing over \$3 billion of projects. Our work has included delivering high profile nuclear safety programmes in the Russian Federation and Ukraine. Most recently we have implemented Single Window systems in Kyrgyzstan and Tajikistan. We are currently working with the Bankers' Association in Uzbekistan to support the government's substantial banking reform project and have worked with the EBRD in the region for many years, delivering trade export training to SMEs. In addition to permanent staff in our Bishkek office, we have agents in Uzbekistan, Tajikistan and Kazakhstan and will be opening an office in Uzbekistan in 2023.

Reason for submitting evidence

This is a region in which Crown Agents has been active – and actively monitoring opportunities – as a UK company for more than 20 years, so we hope the following is some assistance in conveying where we think the priorities for the UK government, and UK companies, should focus.

1. What are the opportunities and risks of the UK strengthening its partnerships with Central Asian states in areas of mutual interest?

1.1 The historical location in the center of the intersection of land trade routes on the continent gives great advantages to the countries of Central Asia for the development of trade, both between Asian countries and between Europe and Asia. As a trading block partner for the UK, and also as a trade bridge between the UK, China and East Asia, there are significant opportunities to develop trade with all countries in the Central Asian region.

1.2 However, while there are advantages offered by the geographical location of the Central Asian countries in the center of the continent and at the intersection of all trade routes, most of these countries are land locked, or double land locked, which poses a significant challenge. For the UK to trade with these countries, efficient rail and road routes are needed to access the ports, as well as regular air services and reliable pipelines for gas and oil – all of which require improvement. In addition, much needs to be done to reduce tariff and non-tariff trade barriers.

1.3 Since the collapse of the Soviet Union in the late 80s, the Central Asian countries have been building economic and political ties with their neighbours and one of the most significant

developments has been the Shanghai Cooperation Organisation (SCO), which was established in 2001 and unites China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan and Uzbekistan. Its mission is to strengthen both economic and military cooperation. In addition, a new cooperation structure, the "Consultative meetings of heads of state of Central Asia", was formed in 2017 with the aim of strengthening friendship and cooperation between the republics of Central Asia. However, the desire for cooperation goes hand in hand with the growth of competition between the countries of the region, which brings its own pressures. For example, Kazakhstan and Kyrgyzstan are in the Eurasian Economic Union, which should ensure transparency of borders. However, Kazakhstan has been creating significant barriers to the movement of goods from Kyrgyzstan for the last few years, in order to redirect trade routes from China through Kazakhstan.

1.4 There has been a recent change in the geopolitical situation in the region since the impact of the COVID-19 pandemic and exacerbated by the disruption and changing trade routes required by Russia's invasion of Ukraine and consequent sanctions against Russia, the largest economic partner of most Central Asian countries. A consequence of this is the shift of trade flows in the region and the growing importance for Central Asia in ensuring trade between Asian and European countries, including the United Kingdom. The countries of the region themselves are increasingly looking for, and increasing their trade relations with, European countries and the UK. This is confirmed by the active preparation of Uzbekistan and Turkmenistan, (which is the most closed-off country in the region), to join the WTO. This gives the UK an excellent opportunity for a more active and direct dialogue with the Central Asian countries to expand trade. Two examples to illustrate the development of trade relations between the UK and Central Asia:

- From 2005 to the 3rd quarter of 2022, the gross inflow of foreign direct investment into Kazakhstan from the UK amounted to 16.4 billion US dollars.¹ The trade turnover January-June 2022 amounted to \$961.6 million, which is 34% higher than in the same period of the previous year - \$627.0 million.² The import/export model is mainly based on the import to the UK of rough materials from Kazakhstan and the import of sophisticated goods and equipment from the UK.³
- The total volume of foreign trade with Uzbekistan reached \$50 billion for the first time in 2022. From March 2021 to April 2022, trade between the UK and Uzbekistan doubled to \$478 million.³

1.5 Although the volume of trade between the UK and most Central Asian countries except Kazakhstan is still quite moderate, there are significant opportunities for expansion. The significant reserves of gold and other precious metals in the region, as well as gas, oil, cotton and agricultural products, offers UK firms the opportunity to export the modern skills, education, technologies, equipment, services and culture which the countries of Central Asia are hungry for and know they need in order to take their place on the world stage.

¹ https://el.kz/ru/velikobritaniya-zanimaet-shestoe-mesto-sredi-investorov-v-ekonomiku-kazahstana_68344/

² <https://www.gov.kz/memleket/entities/mfa-london/press/article/details/4161?lang=en>

³ <https://www.gov.uk/government/news/uk-trade-minister-for-exports-makes-first-ever-visit-to-uzbekistan>

2. Where do the relationships between Central Asian states and neighbouring countries, including the People's Republic of China and the Russian Federation, pose challenges for UK foreign policy, and where do they provide opportunities?

2.1 All Central Asian countries are significantly influenced by Russia due to historical ties: Firstly, as part of the Russian Empire and then the Soviet Union for several centuries, there was very significant labour migration of their populations and a vast trading structure in place. China is now a very active influence on the economies of these countries and their dependency on China is increasing. Tajikistan and Kyrgyzstan are the biggest debtors of China, which has already taken territory from Tajikistan to compensate for unpaid debts. The trade turnover of the Central Asian countries with China has increased by 25 times over the last 20 years. For comparison, China's total foreign trade has grown nine times over this period. According to the Central Asian states, trade with China amounted to \$33.7 billion in 2021 (20.4% of total trade). China's investments in the Central Asian region are twice as large in volume as Russian ones.⁵

2.2 Central Asian countries are also very concerned about the situation in Afghanistan. There are grave concerns about the risks of terrorism and refugees, which is encouraging them to remain allied with Russia, as an example being Tajikistan which needs Russian military support to strengthen its borders. Countries such as Tajikistan and Kyrgyzstan are much more dependent on Russia as the poorest countries in the region. Dependence on Russia results in direct budget support and preferential loans for local entrepreneurs, establishment of joint enterprises and placement of Russian industrial facilities. Economic benefits also come through the significant remittances from labour migrants from these countries to Russia.

2.3 It should be noted that Uzbekistan and Kazakhstan, as the most populous countries with the largest economies and carrying the most political weight, are more independent in terms of making political and economic decisions. They are seeking to diversify their political and economic relationships, a priority they had embraced even before Russia invaded Ukraine, and which now carries greater urgency. At the same time, all the Central Asian countries adhere to a policy of neutrality and friendship, trying to maintain good relations with all partners, old and new.

2.4 In January 2022, President Mirziyoyev approved the Development Strategy of New Uzbekistan (NDS) for the period of 2022-2026 with two key overarching goals: achieving upper-middle-income status (US\$4,000 per capita) by 2030 and reducing poverty by half by 2026. There is a strong government focus on reform and market liberalisation. The new NDS for 2022–26 commits to further reducing the state's footprint in the economy, creating the conditions for improved access by the private sector to factors such as land and capital, and improving the investment climate and business environment.⁴ A number of organisations, including the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan, are working to attract foreign investment in sectors including manufacturing, electronics, food production (the entire supply chain), textiles and minerals. There is a wish to work with foreign

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https://dunyo.info/en/site/inner/president_signs_a_decree_on_the_new_uzbekistan_development_strategy_for_2022-2026-MpP

⁵ https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf

companies that can help develop, for example, a manufacturing sector, moving away from the reliance on the export of raw materials.

2.5 This openness provides the UK with opportunities to establish direct economic and trade ties with Uzbekistan. To Crown Agents, it looks like the most promising country to prioritise, as the fastest and most efficiently developing economy with the greatest potential of natural and human resources and the most favorable investment climate.

2.6 In our view, the UK government would do well to support the government systems' strengthening agenda in Uzbekistan and seek opportunities to critical agendas in areas such as financial services and public procurement and supply chain reform.

3. What is the Government doing to maximise UK soft power influence in Central Asian states?

3.1 The new UK trade scheme is a very positive step which can be further developed by strengthening ties between British and Central Asian exporters by providing training and advice to exporters (starting with fresh and dry fruits, cotton and textiles) on how to trade with the UK. For the reasons already stated, in our view, the largest initial potential, determined by both the opportunities for trade and government support to increase trade with Europe and the UK, will be in Uzbekistan. It should be noted however that trade between Central Asian countries and the UK is still at an early stage, because the countries themselves are very young (only about 30 years of independence). Uzbekistan only opened up trade around five years ago.

3.2 In terms of further opinion on which countries we feel should be prioritised, we understand that the region is politically fragile and prone to events, such as the death of an entrenched leader, that can rapidly lead to instability and change. Nevertheless, our work in the Central Asian region for the last 25 years and our analysis and observations of the development of Central Asian countries in terms of economic growth, political stability and investment attractiveness, would lead us to rank the countries in the following order in terms of priority for the UK government:

1. Uzbekistan
2. Kazakhstan
3. Kyrgyzstan
4. Tajikistan
5. Turkmenistan

3.3 Consultancy services and training of exporters, together with trade missions to establish links between exporters and potential customers in the UK, could be of great benefit to accelerate exports. There are also opportunities in areas including green economy, renewable energy sources, manufacturing sector development, education, public financial management, supply chain and procurement, where both direct investment - and local capacity building and transfer of best practices - offer large potential rewards for UK companies.

4. What opportunities exist for the UK to work more closely with Central Asian states in multilateral institutions and to foster respect for the rules-based international order?

4.1 All of the multilateral institutions (IFIs) have a strong presence in all countries of the region. A notable stakeholder is the European Bank for Reconstruction and Development (EBRD), of which the UK is a founding member and generous contributor. Alongside the World Bank and Asian Development Bank, it's one of the largest institutional investors in Central Asia with currently close to €18.5 billion committed to more than 984 projects in a variety of sectors from infrastructure to agriculture, with a focus on private sector development. While the UK's financial support to the region through the FCDO is not as significant as other international development institutions, it will remain very important. With limited funds to allocate, in our view, it would be advisable to prioritize countries to focus on, and those areas of work, such as education and skills' building, rule of law and green economy programmes, that are already supported by international development agencies.

4.2 The UK remains respected for the rule of law and the strength of its institutions in the region. Companies such as Crown Agents and others, which have helped implement significant reforms in countries in neighbouring regions, could be at the forefront of facilitating change (for example in public financial management and transparent procurement) that produce a trade-enabling environment.

4.3 As a company with a long-standing presence in the region and close relationships with local governments, our focus for growth will be on our areas of core expertise. As stated in the introduction, one current areas of focus for is working with the Uzbekistan banking sector to help support the extensive banking privatization and reform project driven by the government and supported by the World Bank and others. We see significant potential for other core areas where we and other British organisations could lend assistance, such as trade development, procurement reform, ESG and green finance and would welcome discussion about how the UK government could help support. We were interested to see, for example, that the UK government financially supported a seminar this month on issuing green bonds in Kyrgyzstan, working with the Union of Banks and the Green Finance Centre in Bishkek. While a small-scale activity, this is the sort of initiative that builds important relationships and helps enable opportunities for UK companies.

27th March 2023